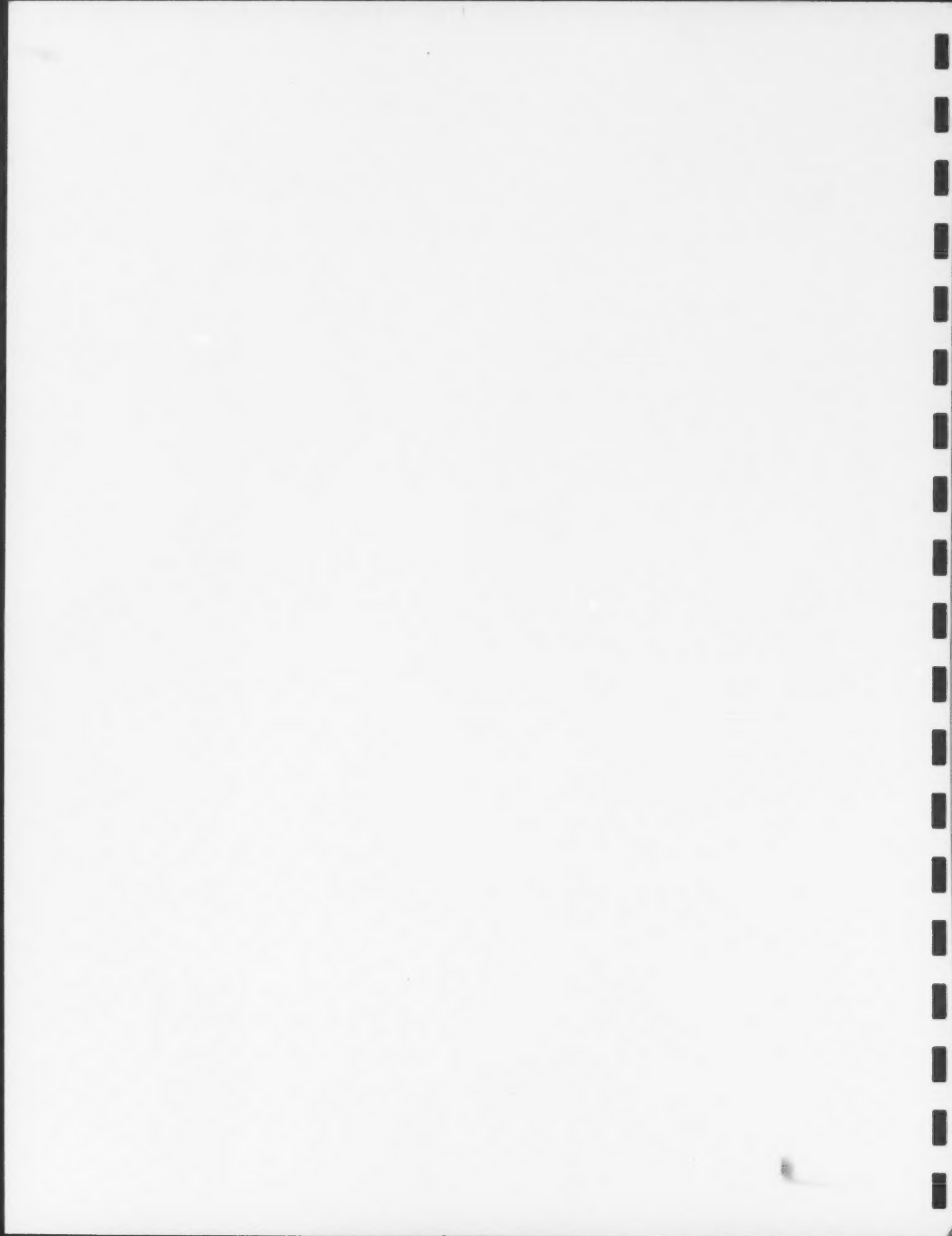

ALGONQUIN FORESTRY AUTHORITY

Agence de foresterie du parc Algonquin



35th Annual Report
2009 - 2010



Thirty- fifth Annual Report 2009 - 2010



TO HIS HONOUR
The Lieutenant Governor
of the Province of Ontario

Contents

MAY IT PLEASE YOUR HONOUR

The undersigned begs respectfully to present to Your Honour the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2009 and ending March 31, 2010.

THE HONOURABLE LINDA JEFFREY
Minister



Forestry
Algonquin
Authority

THE HONOURABLE LINDA JEFFREY
Minister of Natural Resources

Honourable Madam:

I have the honour to submit to you the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2009 and ending March 31, 2010.

HUGH CHRISTIE
Chair

| | |
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FINANCIAL STATEMENTS

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The Algonquin Forestry Authority (AFA) operates under the *Algonquin Forestry Authority Act, 1990*. This legislation sets out the management, objectives and powers of the AFA. Responsibilities in Algonquin Provincial Park include:

- ▶ Ensuring the sustainable management of Algonquin's forests
- ▶ Planning of all forestry operations
- ▶ Harvesting and distribution of wood products to mills
- ▶ Monitoring forestry operations

All forestry activities are carried out under the direction of a Ministry of Natural Resources' approved Forest Management Plan (FMP). These activities are subject to an Independent Forest Audit every five years and the audit results are tabled in the Ontario legislature and made available to the public. In addition, the Algonquin Park forest is certified to Canada's national forest certification standard CSA Z-809. This certification demonstrates the Authority's commitment to sustainable forest management and provides the public access to results from independent forest audits to defined standards.

A key component of the CSA Z-809 standard is the AFA's environmental management system (EMS). The EMS has been registered to the International Standards Organization (ISO) 14001 standard since 2001. Key components of the EMS are prevention of pollution, continual improvement and compliance with applicable laws and guidelines.

AFA receives management direction from several different plans and legislation, but its Sustainable Forest Management (SFM) Policy guides its day-to-day activities.

AFA's commitment to SFM can be found in its Vision Statement:

***To achieve the highest standards of
sustainable forest management practices,
in order to maintain Park values
for future generations.***

The Authority applies the principles of SFM to balance the public's concern for protecting Park values. Protection of recreation, fisheries, wildlife habitat and natural and cultural heritage values is of utmost importance while maintaining a supply of forest products to mills dependent on Park timber. Harvesting is carefully regulated to minimize impacts on other forest values.

The Authority contracts out both harvesting and forest management work to companies from communities in the region. The timber harvested supports 13 mills in communities such as Huntsville, Whitney, Madawaska, Pembroke, Mattawa and Rutherglen. Another five to ten mills receive periodic supplies.

by Hugh Christie

This Annual Report is delivered to the Legislature in compliance with the requirements of the *Algonquin Forestry Authority Act, 1990* in order to inform members about the operations of the Algonquin Forestry Authority (AFA) over the past year.

The 2009 - 2010 fiscal year was challenging for the forest industry in Ontario, including the AFA. Demand for most forest products was down from the previous year. The total volume harvested by AFA was reduced by 13% from 2008-2009 due to this fall in demand. Considering the economic conditions the forest industry experienced, and will continue to experience, the Board of Directors is satisfied with the financial statements in this annual report. The ability to draw down on its accumulated surplus and cushion the blow to those families reliant on the forest industry in challenging times, points out the wisdom of an earlier Legislature in establishing the AFA. Unfortunately, market conditions for most forest products and tree species are expected to remain unchanged going into the 2010-2011 year.

The end of the 2009-2010 fiscal year marks the end of AFA's 35th year of operation. Although operating conditions were difficult last year, AFA met its objectives for the 2009-2010 year. The financial statements in this report document a net loss of \$160,531. This included a reimbursement of over \$587,899 to the clients of AFA. General Manager Danny Janke and the management and staff of AFA are to be congratulated for this result, achieved in such difficult conditions.

The Algonquin Park Forest is certified to Canada's national sustainable forest management standard CSA Z-809. AFA's environmental management system has been registered to the international standards organization ISO 14001 standard since 2001. The 2010-2020 Forest Management Plan was completed in March of 2010 and submitted to the Ministry of Natural Resources for approval. This is an exemplary operation that combines financial stability with the highest environmental standards.

In March 2010, Kathleen Reid, Vice-Chair of the Board of Directors completed her term of appointment. On behalf of the Board and staff of AFA I would like to thank Kathy for her commitment and positive input to governance of AFA and Algonquin's forests over many years.

During the year, Dave Millard retired from the position of Woodlands Supervisor with AFA. Dave worked for 33 years with AFA and was diligent in promoting safety and protecting the forest during logging activities. On behalf of the Board, I extend best wishes to Dave and Lynda for a happy and healthy retirement.

Finally, it is a privilege to serve the people of Ontario as Chair of the AFA. On behalf of all Board members, I thank you for the opportunity to serve.





The approved 2005-2025 Forest Management Plan (FMP) for the Algonquin Park Forest details the goals, objectives and strategies for the twenty-year period and outlines specific operations for the 2005-2010 term. Forest management activities in Algonquin Park must follow FMP prescriptions.

In order to implement forest management systems in Algonquin Park it is first necessary to designate which trees are to be harvested and which ones are to be retained, while protecting other resource values. This is done by skilled tree markers who follow the prescriptions prepared by Registered Professional Foresters in the Forest Management Plan. The partial harvesting systems used in Algonquin Park rely heavily on natural regeneration. To date, this has been largely successful. Tree marking was carried out on 4,965 hectares in 2009-2010.

Trees planted in Algonquin Park are grown from seed that originates within the Park. A total of 300,000 tree seedlings were planted on 270 hectares in 2009. Private nurseries are growing 1.1 million seedlings for planting in 2010. Three hectolitres of cones were collected from red pine, jack pine and red spruce trees for the production of new tree seed.

About 637 hectares were site prepared for planting in future years and 131 hectares were scarified for natural regeneration.

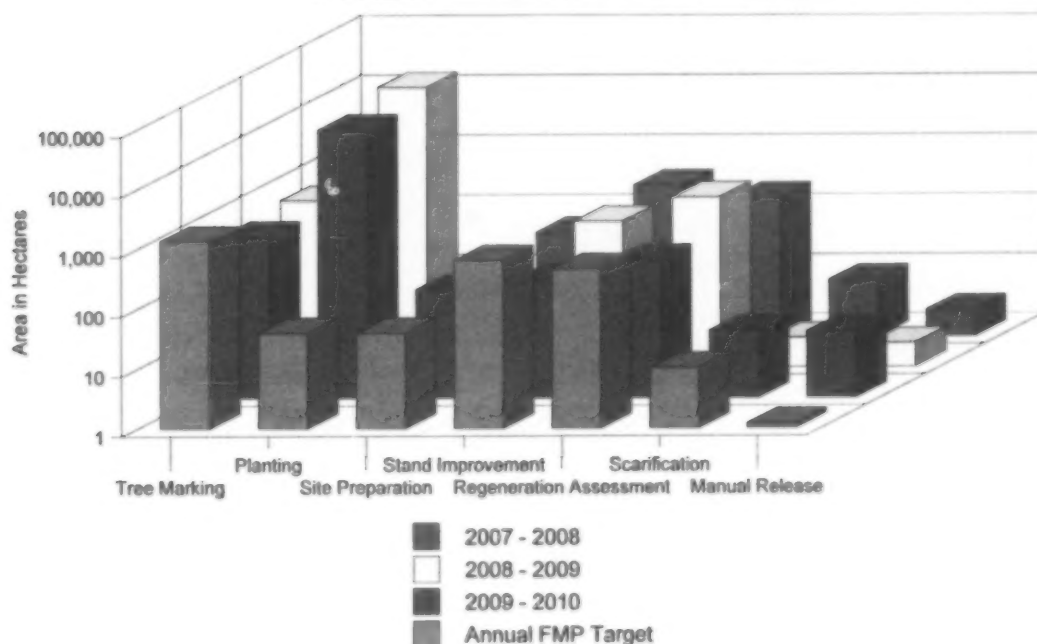
Manual tending was performed on 126 hectares to release established white pine and red pine regeneration from competing vegetation. A further 60 hectares of red pine was pre-commercially thinned.

Regeneration assessments were conducted on over 2,000 hectares to ensure that regeneration treatments are progressing as planned. Results of 'Free to Grow' assessments are reported in the Management Unit Annual Report in November each year. Regeneration assessments are not conducted in hardwood selection areas where natural regeneration is assured.

Stand improvement was completed on 950 hectares to assist growth of residual trees and natural regeneration.

The 2009-2010 forest management program is illustrated below and is compared to annual FMP targets. The program was the fifth year of the approved 2005-2015 FMP.

FOREST MANAGEMENT SUMMARY



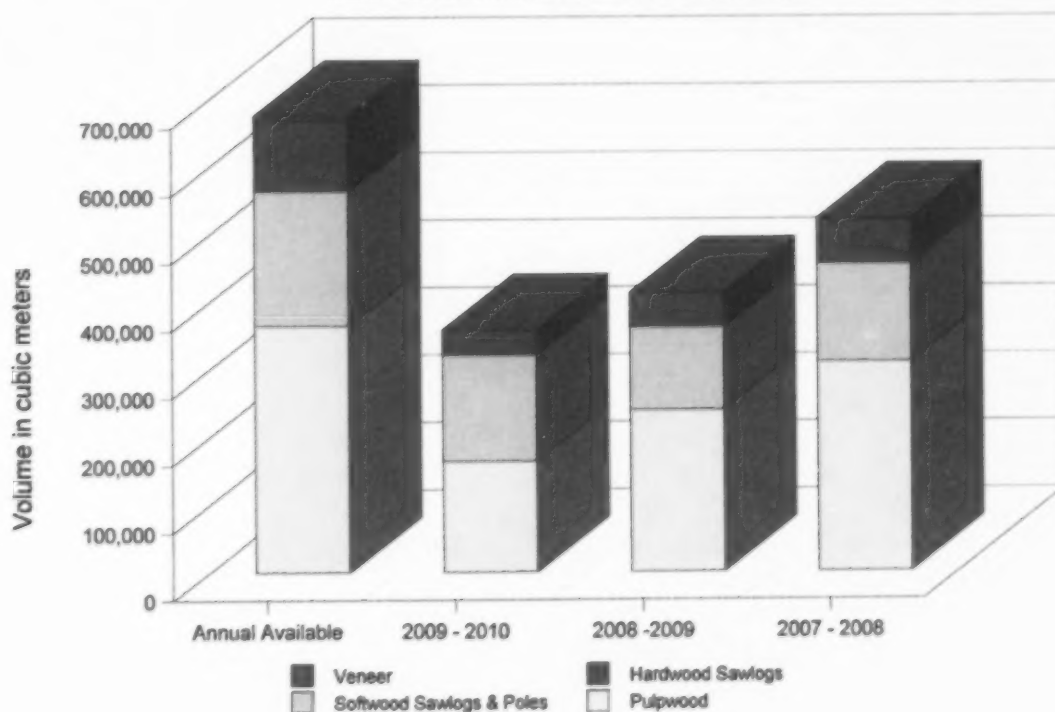


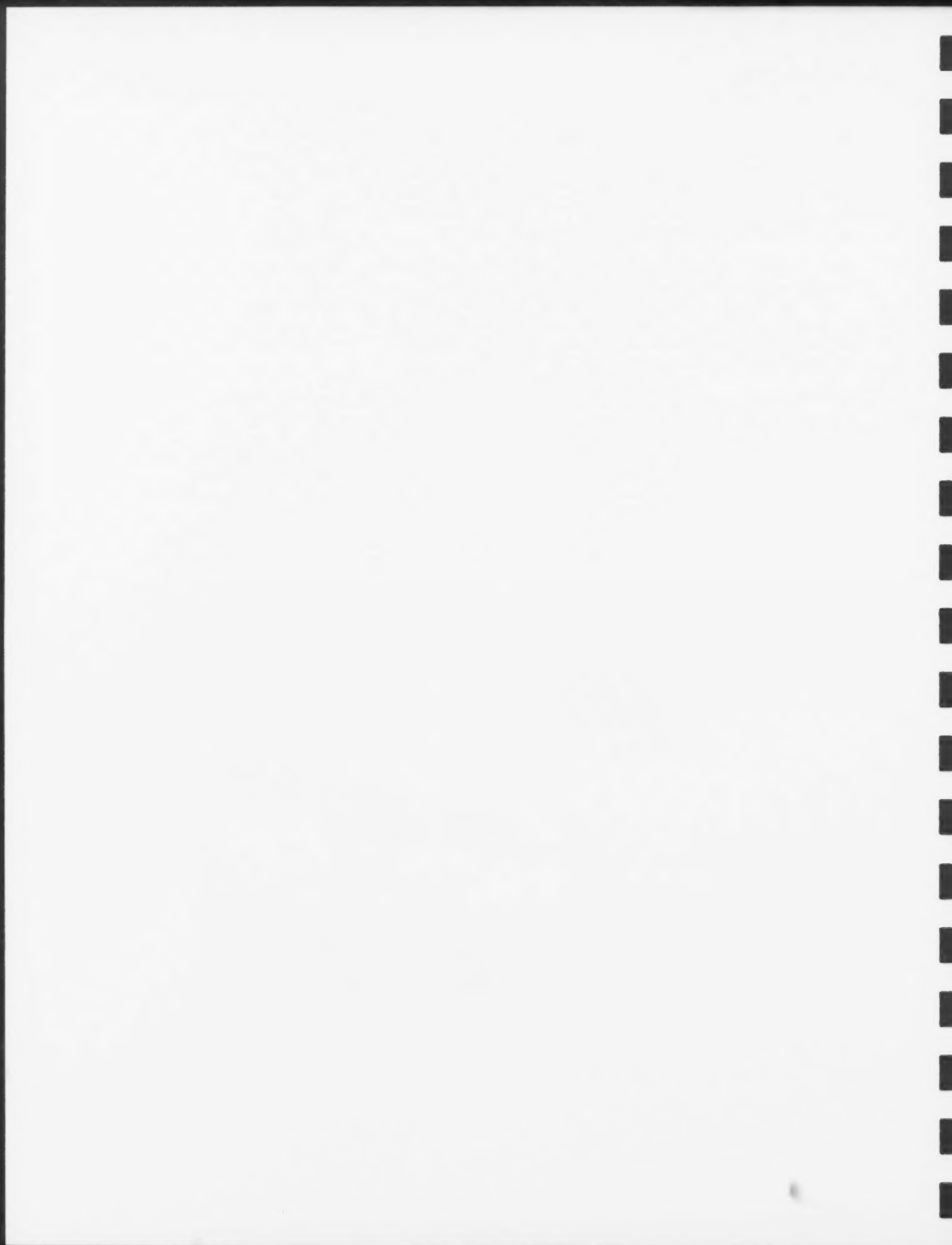
The 2005-2025 Forest Management Plan for Algonquin Park states that a sustainable annual harvest of 677,300 cubic metres (m³) is available from the forest. The 2009-2010 harvest level from the Park was 358,975 m³ (source: AFA Accumulated Sales Data) which is within the sustainable level that the Algonquin forest can provide. The harvest was down 54,401 m³ or 13% from the 2008-2009 fiscal year. Volume harvested in 2009-2010 is illustrated in the following graph and is compared to the previous two years and annual averages for the previous two five-year terms.

The pulpwood sector weakened in 2009-2010 compared to 2008-2009. This was the second year of poor market conditions for the forest industry. The demand from the sawlog sector improved marginally in 2009-2010 compared to 2008-2009 for the Algonquin Park forest industry as some sawmills replaced inventories. Generally speaking, overall lumber production in North America was reduced in 2009-2010 compared to 2008-2009 due to the continued decline in the United States housing market and reduced global demand for wood products.

W. F. Dombroski Logging Contractors Ltd. of Barry's Bay, Ontario received the annual Safety Award for the season ending 2009-2010. This award is presented annually to the Algonquin Park logging contractor with best safety record. Employees worked a total of 4,322 person days with no lost time days due to work-related accidents. In addition to the safety award, AFA and the contractors administer an "Environmental and Safety Award System" that recognizes positive work practices. Based on a point system, the top logging crews on each contractor operation receive rewards. The hauling and road construction sectors are also recognized for their contributions to the overall results.

ANNUAL HARVEST LEVELS





Harvesting and the Statement of Operations

Operating revenues for the year were \$19,202,827, which represents a decrease of \$1,651,067 or 7.9 % compared to 2008-2009. Demand for forest products was reduced 13 % during the year resulting in reductions to both product sales and standing timber sales in 2009-2010.

Other includes approximately \$1,800,000 (\$2,000,000 in 2008-2009) of provincial road maintenance funding which was reimbursed to AFA for maintenance activities performed. Amounts then reimbursed by AFA directly to the forest industry as reduction to both product sales and standing timber sales amounted to approximately \$600,000 (\$800,000 in 2008-2009). Sales of standing timber were down \$72,873 as a result of reduced demand.

Costs for contracted production, direct labour and stumpage were lower than the previous year, result in an increase in operating income to \$1,930,838 as compared to \$1,287,727 in the previous year. Operations planning costs associated with our Environmental Management System, CSA certification and the next FMP process were \$165,286 as compared to \$132,162 in the previous year.

Administration costs for the year were \$2,291,369 which represents an increase of \$58,591 or 2.6% compared to 2008-2009. The increase is primarily related to increased costs of benefits.

Forest Renewal Fund

The method of accounting for Crown Stumpage reflects the requirements of the Crown Forest Sustainability Act. The forest renewal portion of the Crown Stumpage Matrix is retained by the Authority, in trust for the Crown, and is to be used to fund eligible forest renewal work on a cost recovery basis. The forest renewal revenue of \$808,947 (\$771,260 in 2009) represents amounts actually charged by the Ministry to customers during the year for renewal fund purposes. Improved higher renewal value product mix more than compensated for the reduced volumes, to contribute to the year over year increase in revenue.

Actual allowable forest renewal expenditures incurred during the year amounted to \$1,238,768 as compared to \$1,158,245 in 2009. This is the fifth consecutive year that a current year shortfall has been incurred resulting in a loss of \$299,127 (\$311,822 in 2009). We expect this trend to reverse itself once market demand improves.

Financial Position- Balance Sheet

The Statement of Financial Position disclosure reflects disclosure requirements affecting not-for-profit organizations, such as the Authority, recommended by the Canadian Institute of Chartered Accountants. Funds received in advance of the planned expenditure are disclosed as "Deferred Contributions" and amounts once referred to, in a single disclosure component, as "Retained Income" have been disclosed as three separate components of 'Net Assets'. This disclosure clarifies the restricted/unrestricted nature of our net asset position.

At March 31, 2010 our cash was \$2,281,795 lower than the prior year balance. However, our receivables were higher than the March 31, 2009 balances by \$2,150,801. As receivable are collected, temporary investments will be secured.

An effort was made at the end of the production season to reduce inventory levels and this initiative resulted in a reduction in inventories of \$225,752.

March 31 payables and accruals were lower by \$312,646 compared to 2009 as a result of curtailing operations earlier than the previous year. Also included in the \$1,188,656 balance is approximately \$600,000 (\$800,000 in 2008-2009) of provincial road maintenance funding that was reimbursed to AFA for maintenance activities performed and then reimbursed by AFA directly to the forest industry in May 2010.

The Renewal Account balance of \$2,500,000 (\$2,500,000 in 2009) remains well above the minimum required balance of \$1,500,000.



Board of Directors

7

| | Date of Appointment | Current Term's Expiration Date |
|--|--------------------------------|---|
| CHAIR: | | |
| Hugh Christie Etobicoke, ON | September 8, 2005 | September 7, 2011 |
| VICE-CHAIR: | | |
| Kathleen Reid Norwood, ON | March 25, 1998 | March 10, 2010 |
| DIRECTORS: | | |
| William Atkinson Sundridge, ON | June 2, 2004 | June 1, 2010 |
| William Dickinson Bracebridge, ON | November 10, 2005 | November 9, 2011 |
| Karen LeClerc Laurentian Hills, ON | November 10, 2005 | November 9, 2011 |
| Don McCormick Huntsville, ON | June 2, 2004 | June 1, 2010 |
| Terrence Mullin Barry's Bay, ON | November 10, 2005 | November 9, 2011 |
| Anne Mandy Huntsville, ON | June 23, 2004 | June 22, 2010 |
| David Stewart Cobden, ON | February 18, 2009 | February 17, 2012 |

OFFICERS:

Daniel R. Janke, MBA
General Manager

Timothy K. Doyle, CA
Secretary-Treasurer

GENERAL MEETINGS:

May 22 - 23, 2009
Barry's Bay, ON

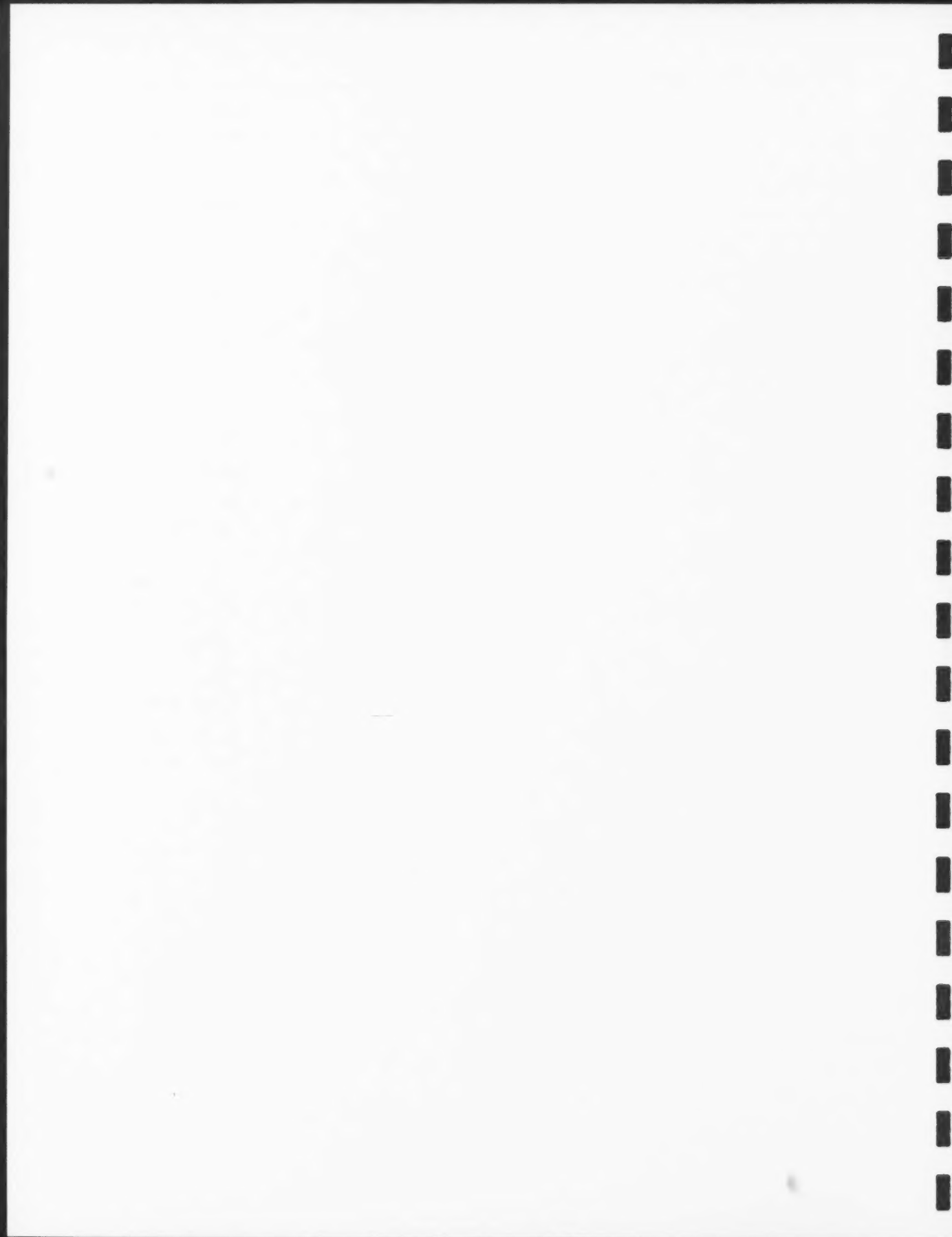
October 23 - 24, 2009
Huntsville, ON

February 5 - 6, 2010
Pembroke, ON

July 17, 2009
Algonquin Park

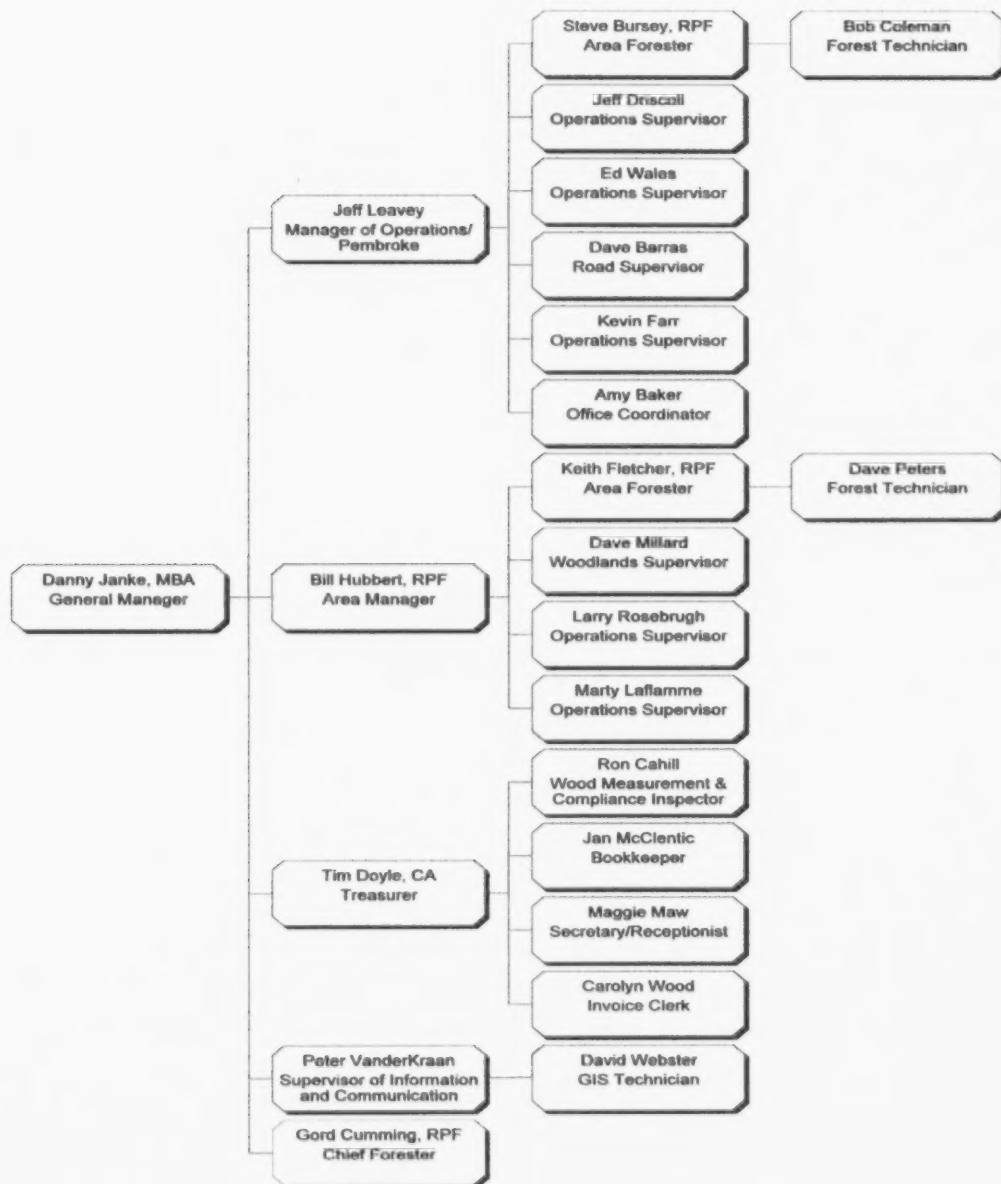
December 4 - 5, 2009
Toronto, ON

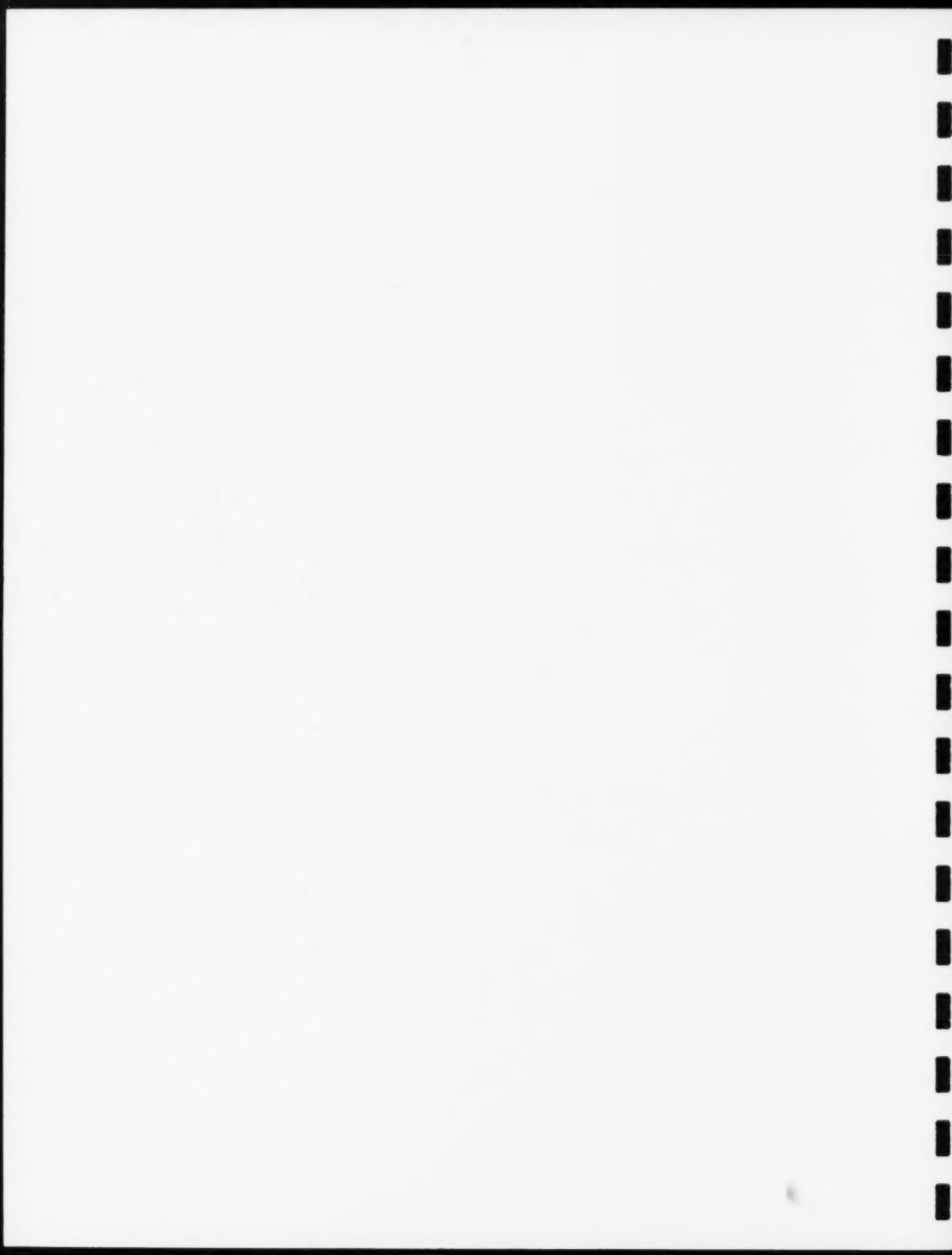
March 26 - 27, 2010
Huntsville, ON



Organization Chart

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Algonquin Forestry Authority
Financial Statements
March 31, 2010

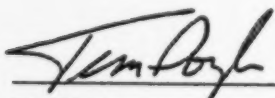
Management's Responsibility for Financial Information

Management and the Board of Directors of the Algonquin Forestry Authority are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management's best estimates and judgements.

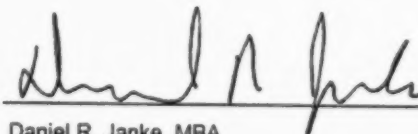
The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the *Algonquin Forestry Authority Act*.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources for approval.

The financial statements have been examined by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



Tim Doyle, C.A.
Treasurer



Daniel R. Janke, MBA
General Manager





Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Members, Algonquin Forestry Authority,
and to the Minister of Natural Resources

I have audited the statement of financial position of the Algonquin Forestry Authority as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

- I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 4, 2010

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10 Dundas Street West
Toronto, Ontario
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Tel: (416) 327-1111
Fax: (416) 329-1111

Box 105, 15th Floor
10 Dundas Street West
Toronto, Ontario
M5G 2C2



Algonquin Forestry Authority **Statement of Financial Position**

March 31

2010

2009

Assets

Current

| | | |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,505,722 | \$ 4,787,517 |
| Receivables | 5,988,464 | 3,837,663 |
| Inventory | 358,049 | 583,801 |
| Prepays | 5,147 | 4,840 |
| | <u>8,857,382</u> | <u>9,213,821</u> |
| Capital assets (Note 6) | <u>346,610</u> | <u>419,194</u> |
| | <u>\$ 9,203,992</u> | <u>\$ 9,633,015</u> |

Liabilities

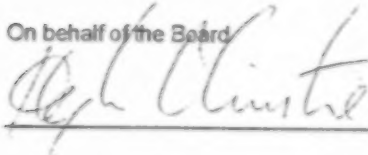
Current

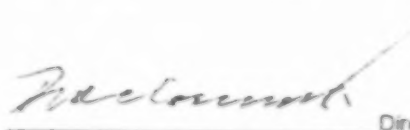
| | | |
|--|------------------|------------------|
| Payables and accruals | \$ 1,188,656 | \$ 1,501,302 |
| Contractors' performance holdbacks | 61,185 | 71,677 |
| Due to Consolidated Revenue Fund | 183,452 | 174,665 |
| Deferred contributions (Note 7) | <u>260,626</u> | <u>215,098</u> |
| | <u>1,693,919</u> | <u>1,962,742</u> |
| Obligation for employee future benefits (Note 8) | <u>457,148</u> | <u>456,817</u> |
| | <u>2,151,067</u> | <u>2,419,559</u> |

Net assets

| | | |
|---|---------------------|---------------------|
| Invested in capital assets | 346,610 | 419,194 |
| Restricted - Forest Renewal Fund (Notes 5 and 14) | <u>2,500,000</u> | <u>2,500,000</u> |
| Unrestricted - General Fund | <u>4,206,315</u> | <u>4,294,262</u> |
| | <u>7,052,925</u> | <u>7,213,456</u> |
| | <u>\$ 9,203,992</u> | <u>\$ 9,633,015</u> |

On behalf of the Board

 Director

 Director

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Operations

Year Ended March 31

| | General Fund | Forest Renewal Fund | Total 2010 | Total 2009 |
|--|-------------------|------------------------|---------------------|---------------------|
| Revenue | | | | |
| Product sales | \$ 16,199,305 | \$ - | \$ 16,199,305 | \$ 17,614,870 |
| Forest renewal activity | - | 808,947 | 808,947 | 771,260 |
| Standing timber sales | 3,240 | - | 3,240 | 76,113 |
| Other (Note 9) | <u>2,060,641</u> | <u>130,694</u> | <u>2,191,335</u> | <u>2,391,651</u> |
| | <u>18,263,186</u> | <u>939,641</u> | <u>19,202,827</u> | <u>20,853,894</u> |
| Expense | | | | |
| Direct program costs | 14,141,153 | 984,586 | 15,125,739 | 17,404,661 |
| Crown timber stumpage charges | 1,654,067 | - | 1,654,067 | 1,663,409 |
| Public access road maintenance | 266,532 | - | 266,532 | 305,750 |
| Operations planning | 165,286 | - | 165,286 | 132,162 |
| Wood measurement | <u>60,365</u> | <u>-</u> | <u>60,365</u> | <u>60,185</u> |
| | <u>16,287,403</u> | <u>984,586</u> | <u>17,271,989</u> | <u>19,566,167</u> |
| Operating income | <u>1,975,783</u> | <u>(44,945)</u> | <u>1,930,838</u> | <u>1,287,727</u> |
| Administrative and other | | | | |
| Salaries and benefits | 1,646,939 | 197,010 | 1,843,949 | 1,707,923 |
| Amortization | 148,780 | 36,199 | 184,979 | 220,820 |
| Office supplies and expenses | 109,000 | 252 | 109,252 | 96,081 |
| Office rent | 39,925 | 12,000 | 51,925 | 49,253 |
| Directors' allowances and expenses | 37,088 | - | 37,088 | 56,594 |
| Public relations | 24,875 | - | 24,875 | 28,462 |
| Insurance | 15,900 | 7,425 | 23,325 | 23,728 |
| Staff travel and training | 13,400 | 1,296 | 14,696 | 30,375 |
| Consulting, legal and miscellaneous | <u>1,280</u> | <u>-</u> | <u>1,280</u> | <u>19,542</u> |
| | <u>2,037,187</u> | <u>254,182</u> | <u>2,291,369</u> | <u>2,232,778</u> |
| Loss before assessment | (61,404) | (299,127) | (360,531) | (945,051) |
| Recovery of penalties and interest on GST assessment (Note 12) | <u>200,000</u> | <u>-</u> | <u>200,000</u> | <u>-</u> |
| Net surplus (loss) for the year | <u>\$ 138,596</u> | <u>\$ (299,127)</u> | <u>\$ (160,531)</u> | <u>\$ (945,051)</u> |

See accompanying notes to the financial statements.



Algonquin Forestry Authority **Statement of Changes in Net Assets**

Year Ended March 31

2010

2009

| | Invested In Capital Assets | Restricted - Forest Renewal Fund | Unrestricted - General Fund | Total | Total |
|---------------------------------|----------------------------------|---|-----------------------------------|---------------------------|---------------------|
| Balance, beginning of year | \$ 419,194 | \$ 2,500,000 | \$ 4,294,262 | \$7,213,456 | \$ 8,158,507 |
| Interfund transfer (Note 14) | - | 262,928 | (262,928) | - | - |
| Net (loss) surplus for the year | - | (299,127) | 138,596 | (160,531) | (945,051) |
| Amortization | (184,979) | 36,199 | 148,780 | - | - |
| Investment in capital assets | <u>112,395</u> | <u>-</u> | <u>(112,395)</u> | <u>-</u> | <u>-</u> |
| Balance, end of year | <u>\$ 346,610</u> | <u>\$ 2,500,000</u> | <u>\$4,206,315</u> | <u>\$7,052,925</u> | <u>\$ 7,213,456</u> |

See accompanying notes to the financial statements.



Algonquin Forestry Authority

Statement of Cash Flows

Year Ended March 31

2010

2009

Cash and cash equivalents derived from (applied to)

Operating

Net surplus (loss) for the year:

General Fund

\$ 138,596

\$ (633,229)

Forest Renewal Fund

(299,127)

(311,822)

Add (deduct): non-cash items

Amortization

184,979

220,820

Gain on sale of capital assets

(19,629)

-

4,819

(724,231)

Change in non-cash operating working capital

(2,239,707)

119,999

(2,234,888)

(604,232)

Financing

Obligation for employee future benefits

331

(14,531)

Deferred contributions

45,528

115,599

45,859

101,068

Investing

Disposal of temporary investments

-

2,860,365

Acquisition of capital assets

(112,395)

(166,042)

Proceeds on sale of capital assets

19,629

5,682

(92,766)

2,700,005

(Decrease) increase in cash and cash equivalents

(2,281,795)

2,196,841

Cash and cash equivalents, beginning of year

4,787,517

2,590,676

Cash and cash equivalents, end of year

\$ 2,505,722

\$ 4,787,517

See accompanying notes to the financial statements.



Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

1. Purpose of the organization

The Authority is responsible for forest management in Algonquin Provincial Park. The Authority is a Crown Agency which was established by the Ontario Government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is exempt from income taxes under the Income Tax Act.

2. Significant accounting policies

Basis of accounting

The Authority's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants.

Fund accounting

The General Fund accounts for the Authority's revenue generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

Revenue recognition

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Revenue from product and standing timber sales and forest renewal charges are recognized when the wood is delivered. Consulting and other income is recognized as revenue when earned.

Inventories

Inventories, which consist of harvested wood not yet delivered to customers, are measured at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis. Cost includes all acquisition costs incurred in bringing inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Capital assets

Capital assets are recorded at cost. Amortization is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, trailers and leasehold improvements, 20% per annum for data processing equipment and portable steel structures and 25% per annum for automotive equipment. The cost of bridges and access roads is amortized over the estimated number of operating seasons for which the bridges and roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are amortized at the same rates as the assets mentioned above.



Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Authority may undertake in the future. Significant accounting estimates include accounting for doubtful accounts, inventory obsolescence, estimated useful lives of capital assets and recovery of penalties and interest on GST assessment. Actual results could differ from those estimates.

Financial instruments

The Authority has made the following classification for the purpose of measuring the value of the financial instruments:

- Cash and cash equivalents includes cash on hand, balances with banks and short term deposits with original maturities of three months or less. Cash and cash equivalents have been classified as "held for trading". They are initially measured at fair value and the gains and losses resulting from the revaluation at fair value at the end of each period are recognized in net surplus (loss).
 - Receivables are classified as "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of receivables are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.
 - Payables and accruals, contractors' performance holdbacks, Due to Consolidated Revenue Fund, deferred contributions and obligations for future employee benefits are classified as "other financial liabilities." They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net surplus (loss).
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Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

2. Significant accounting policies (continued)

Financial instruments (continued)

The Canadian Institute of Chartered Accountants (CICA) implemented two new handbook sections for fiscal years starting on or after October 1, 2007: 3862 "Financial Instruments – Disclosure"; and 3863 "Financial Instruments – Presentation". These sections replace section 3861 "Financial Instruments – Disclosure and Presentation" for many organizations and require more extensive disclosures including information about risk assessment, risk management procedures, and sensitivity analyses around each type of risk. However, the CICA provided not-for-profit organizations with the option of continuing to use section 3861, and the Authority has decided to do so.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets, if any, are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

Allocation of expenses

The Authority allocates to the Forest Renewal Fund certain expenses incurred by the General Fund. Allocated costs include a portion of administrative salaries and related benefits for three employees, building and content insurance and office rent. Administrative salaries are allocated based on a percentage of approved budgeted salaries as follows:

| | |
|--|-----|
| Bookkeeper | 20% |
| Supervisor of Information and Communications | 10% |
| G.I.S. Technician | 30% |

Insurance and office rent are allocated proportionately based on the salaries charged to the Forest Renewal Fund.

3. Application of new accounting standards

Financial statement presentation by not-for-profit organizations

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Section 4400 "Financial Statement Presentation by Not-for-Profit Organizations". This standard has been amended to permit a not-for-profit organization to present net assets invested in capital assets as a category of internally restricted net assets and clarification of presentation of revenue and expenses on a gross basis when the entity is acting as the principal in a transaction. The adoption of this standard has not resulted in any changes in the presentation of revenue and expenses and has not resulted in additional disclosures regarding internally restricted net assets.



Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

3. Application of new standards (continued)

Capital assets held by not-for-profit organizations

Effective April 1, 2009 the Authority adopted the amendments to CICA Handbook Section 4430 "Capital Assets Held by Not-for-Profit Organizations". This standard has been amended to reflect the changes in Section 4400. The adoption of the amended standard has not resulted in any additional disclosures.

Disclosure of allocated expenses by not-for-profit organizations

Effective April 1, 2009, the Authority adopted CICA Handbook Section CICA 4470 "Disclosure of Allocated Expenses by Not-for-Profit Organizations". This new standard establishes disclosure standards for a not-for-profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate. The adoption of this Section has resulted in expanded disclosures, which are included in Note 2 (accounting policy) and Note 16.

Cash flow statements

Effective April 1, 2009, the Authority adopted the amendments to CICA Handbook Section 1540 "Cash Flow Statements". This standard has been amended to include not-for-profit organizations within the scope of the standard. The adoption of the amended standard has not resulted in any additional disclosures.

4. Future accounting pronouncements

Amendments to financial instruments – recognition and measurement

The CICA amended Section 3855 "Financial instruments – Recognition and Measurement" to clarify the application of the effective interest method after a debt instrument has been impaired. These amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after July 1, 2009. The Authority does not expect the amended standard to have any impact on its financial statements.

5. Forest Renewal Fund

Effective April 1, 2002, the Authority renewed its 20-year agreement with the Ministry of Natural Resources, a related party, to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act and grants from the Forestry Futures Fund.

The agreement also requires the Authority to maintain a minimum balance of \$1,500,000 in the Forest Renewal Fund.



Algonquin Forestry Authority **Notes to the Financial Statements**

March 31, 2010

6. Capital assets

| | | | <u>2010</u> | <u>2009</u> |
|---------------------------|---------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Portable steel structures | \$ 440,854 | \$ 309,985 | \$ 130,869 | \$ 124,496 |
| Forest renewal assets | 362,386 | 290,093 | 72,293 | 77,736 |
| Automotive equipment | 314,916 | 254,887 | 60,029 | 72,804 |
| Bridges and access roads | 5,346,800 | 5,288,530 | 58,270 | 111,992 |
| Technical equipment | 191,163 | 181,533 | 9,630 | 11,422 |
| Data processing equipment | 149,267 | 140,454 | 8,813 | 11,923 |
| Furniture and fixtures | 83,358 | 79,970 | 3,388 | 4,575 |
| Leasehold improvements | 44,805 | 42,470 | 2,335 | 2,982 |
| Trailers | 13,690 | 12,707 | 983 | 1,264 |
| | <u>\$ 6,947,239</u> | <u>\$ 6,600,629</u> | <u>\$ 346,610</u> | <u>\$ 419,194</u> |

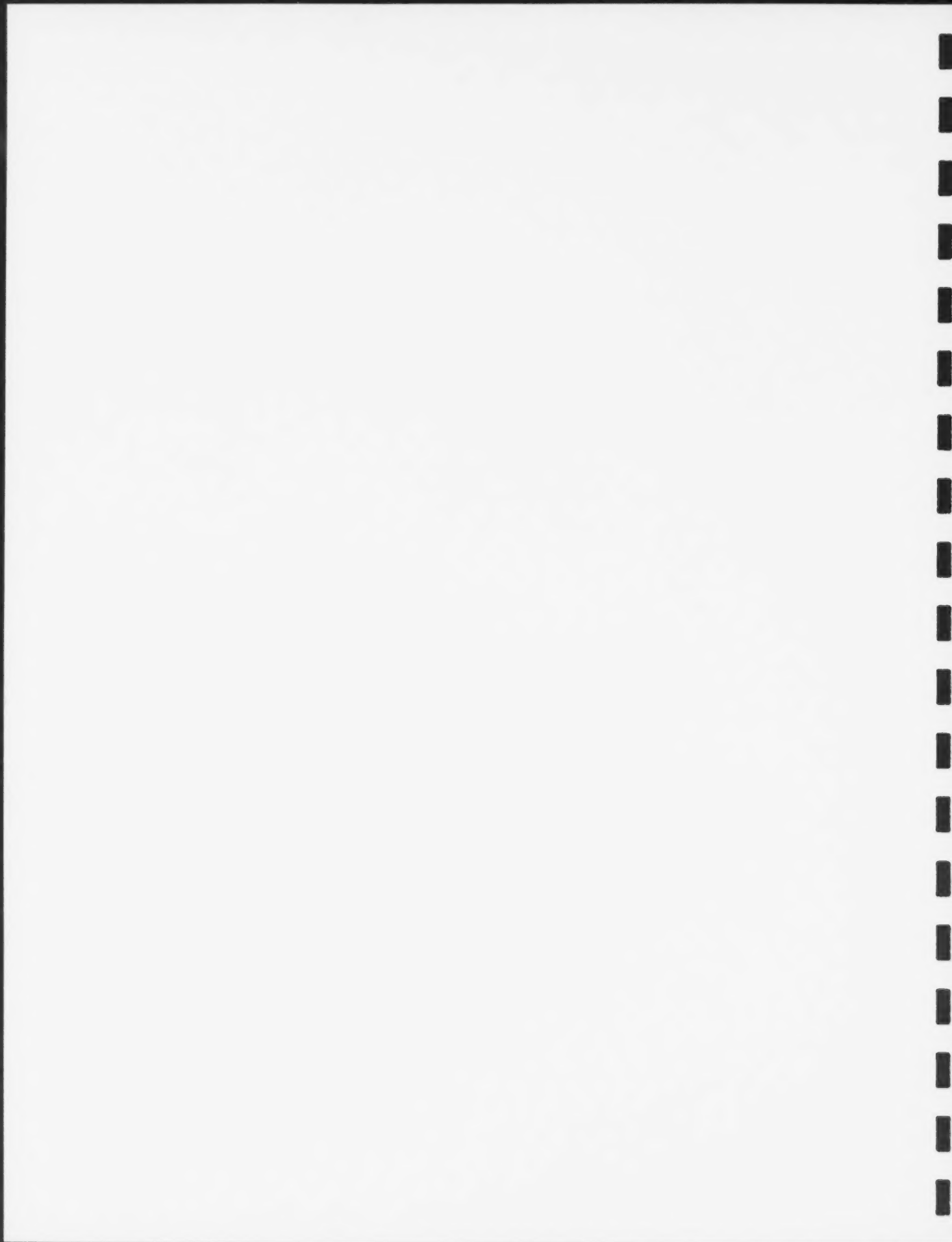
7. Deferred contributions

Deferred contributions represent unspent resources received from the Ministry of Natural Resources in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| <u>Public access road maintenance</u> | | |
| Beginning balance | \$ 133,089 | \$ 99,499 |
| Add: amount received in the year | 300,080 | 339,340 |
| Less: amount spent on road maintenance and related amortization costs in the year | (266,532) | (305,750) |
| Ending balance | <u>\$ 166,637</u> | <u>\$ 133,089</u> |

Other park-related projects

| | | |
|--|-------------------|-------------------|
| Beginning balance | \$ 82,009 | \$ - |
| Add: amount received in the year | 57,844 | 82,009 |
| Less: amount spent on projects in the year | (45,864) | - |
| Ending balance | <u>\$ 93,989</u> | <u>\$ 82,009</u> |
| Total | <u>\$ 260,626</u> | <u>\$ 215,098</u> |



Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

8. Employee future benefits

The Authority's full-time employees participate in the Public Service Pension Fund (PSPF) which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Authority's annual payments to the PSPF. As the sponsor is responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from the statutory actuarial funding valuations are not assets or obligations of the Authority. The Authority's annual payments of \$179,838 (2009 - \$107,954) are included in salaries and benefits in the Statement of Operations.

The Authority also provides termination benefits to qualifying employees. All full-time employees qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority, to a maximum of one half of the employee's annual salary. The total obligation for severance payments vested amounts to \$457,148 at year end (2009 - \$456,817).

The cost of other non-pension post-retirement benefits is the responsibility of the Province, a related party, and accordingly is not accrued or included in the Statement of Operations.

9. Road maintenance funding

Included in General Fund Other Revenue is revenue of \$1.75 million (2009 - \$1.96 million) received by the Authority pursuant to an agreement with the Ontario Ministry of Natural Resources. The purpose of the agreement is to provide the Authority with reimbursement of road construction and maintenance costs on eligible primary and secondary forest access roads where access to those roads is not limited to the forest industry. A portion of the Ministry funding was passed on to the Authority's customers through a rebate allocated on the basis of sales volumes.

10. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately \$18,900 during the fiscal year (2009 - \$20,400).

11. Financial instruments

Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair value of the Authority's financial instruments approximate their carrying values, unless otherwise noted.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2010

12. Penalties and interest on GST assessment

In 2007, the Authority was subject to a GST audit from Canada Revenue Agency ("CRA"). This audit covered the periods April 1, 2002 to December 31, 2006. The Authority was required to remit GST to CRA relating to stumpage fees which the Authority was able to recover from its customers. As a result of the assessment by CRA, the Authority also paid penalty and interest charges of \$234,598. As a result of previously submitting a Request for Taxpayer Relief to the CRA, subsequent to year end, the Authority received notification that it qualifies for a reduced penalty and as such, the Authority will receive a refund from CRA. An estimated recovery of \$200,000 has been recorded at March 31, 2010.

13. Capital management

The Authority considers cash (and cash equivalents) and net assets as capital. The Authority manages its capital to have sufficient resources to satisfy its liabilities as they become due and to provide the services for which it is constituted in a consistent and quality manner. The Ministry of Natural Resources requires the Authority to maintain a minimum balance of \$1,500,000 in the Forest Renewal Fund (see Note 5) and the Authority has complied with this requirement.

14. Interfund transfer

The Board of Directors has approved, by resolution, that any loss incurred in the Forest Renewal Fund resulting from forest renewal activity expenses exceeding revenue during the year which cannot be funded by the Forest Renewal Fund without causing the Forest Renewal Fund balance to fall below \$2,500,000, shall be funded by the General Fund.

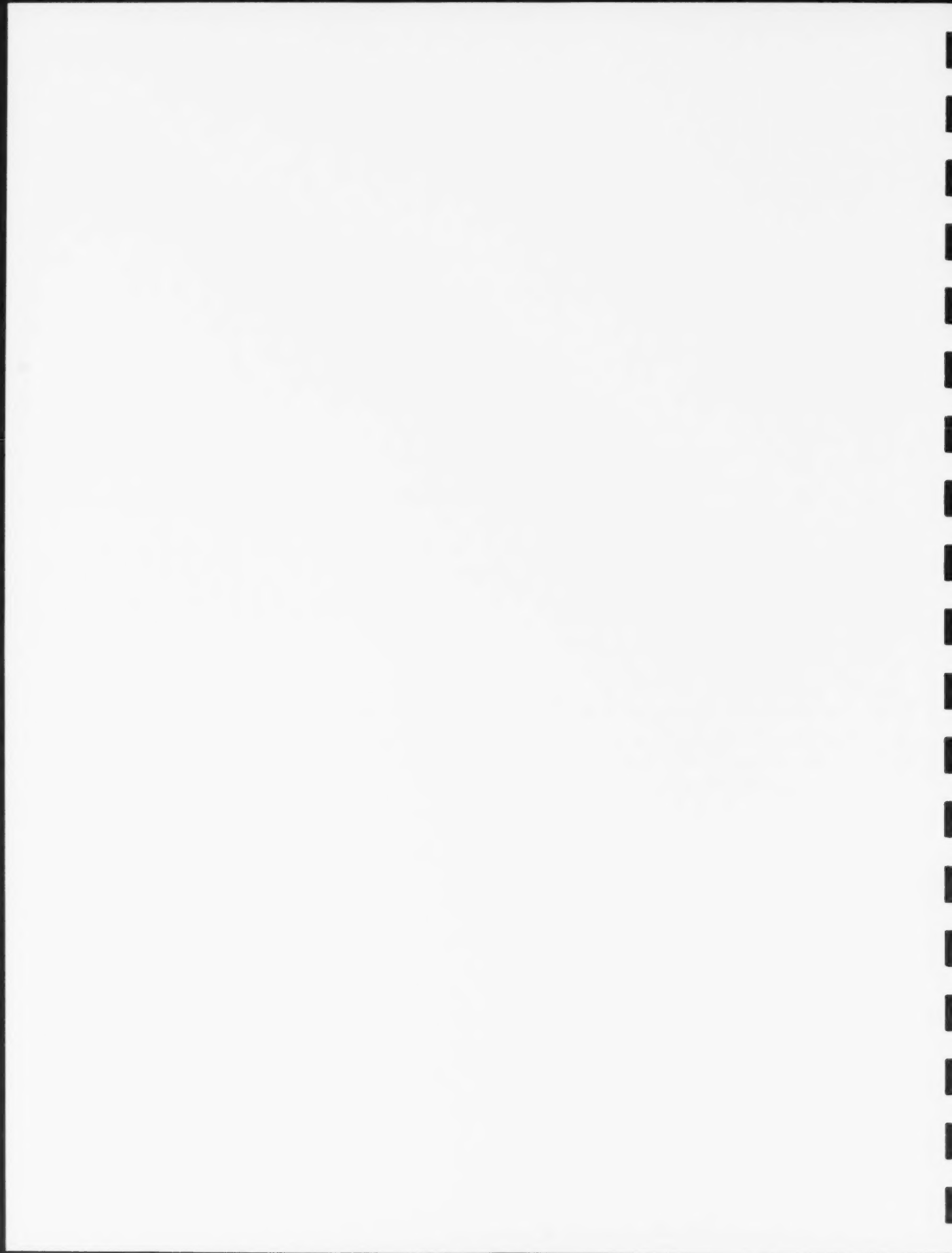
15. Inventory write-down

During the year, the Authority has recorded an inventory write-down of \$35,350 (2009 – nil) which is included in direct program costs.

16. Allocated expenses

The following expenses have been allocated to the Forest Renewal Fund:

| | <u>2010</u> | <u>2009</u> |
|--|------------------|------------------|
| Office rent | \$ 10,007 | \$ 11,345 |
| Insurance | 2,320 | 3,080 |
| Administrative salaries and related benefits | <u>42,590</u> | <u>41,552</u> |
| | <u>\$ 54,917</u> | <u>\$ 55,977</u> |



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